

Message Text

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ACTION EUR-12

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AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

C O N F I D E N T I A L EC BRUSSELS 11278

DEPT PASS TREASURY, FRB AND CEA

E.O. 11652: GDS

TAGS: EFIN, EEC

SUBJECT: SNAKE FINANCE MINISTERS DISCUSS EXCHANGE MARKET

INTERVENTIONS AND INTERMEDIATE SOLUTION FOR SWISS ASSOCIATION

REFS: A) EC BRUSSELS 11234

B) EC BRUSSELS 11206

C) EC BRUSSELS 11092

D) EC BRUSSELS 11091

1. SUMMARY: SNAKE FINANCE MINISTERS ISSUED A BRIEF STATE-
MENT ON DECEMBER 15 REGARDING THE TEMPORARY SUSPENSION OF
NEGOTIATIONS OVER SWISS ASSOCIATION WITH THE SNAKE (SEE REFS A
AND B). OUR SOURCES WHO PARTICIPATED IN THE MEETING REPORT
THAT THE MINISTERS ALSO DISCUSSED THE COORDINATION OF EXCHANGE
MARKET INTERVENTION POLICY AND THE COUNTRIES TO BE INCLUDED
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IN THE INTERVENTION SYSTEM. THE MINISTERS AND BANK GOVERNORS

DIFFERED OVER THE STRUCTURE OF COORDINATING PROCEDURES. THE FRG PROPOSED A POSSIBLE INTERMEDIATE SNAKE ARRANGMENT FOR SWITZERLAND, BUT FRANCE SEEMED TO REJECT THIS. NORWAY AND SWEDEN NO BELIEVE THAT THEY WILL BE ABLE TO PARTICIPATE MORE FREQUENTLY IN THE SNAKE MEETINGS. END SUMMARY.

2. COORDINATION STRUCTURE: THE FINANCE MINISTERS AND CENTRAL BANK GOVERNORS OF THE EUROPEAN MONETARY SANKE, INCLUDING NORWAY AND SWEDEN, DISCUSSED ON DECEMBER 15 IN BRUSSELS THE FRENCH-US PROPOSALS TO COORDINATE EXCHANGE MARKET INTERVENTIONS. THE EC CENTRAL BANK GOVERNORS REPORTED (SEE REF D) THAT THEY HAD DECIDED TO INCLUDE SWITZERLAND IN THE SNAKE'S EXISTING MULTIPLEX SYSTEM BECAUSE THE SWISS NATIONAL BANK WOULD PROVIDE NEEDED INFORMATION ON EXCHANGE MARKETS. THIS SYTEM PROVIDES A TELPHONIC LINK WITH ALL EC AND SNAKE CENTRAL BANKS, INCLUDING SWDEN, NORWAY AND THE EC MEMBER STATES WHICH ARE NOT PARTICIPATING IN THE SNAKE. IT IS USED THREE TIMES DAILY TO COORDINATE INTERVENTIONS. FRG FINANCE MINISTER APEL STRONGLY SUPPORTED THE INCLUSION OF SWITZERLAND IN THIS NET. THE FINANCE MINISTERS DID NOT OBJECT TO THIS DECISION BUT IT WAS MADE CLEAR THAT SWISS PARTICIPATING DID NOT HAVE ANY BEARING ON THE ISSUE OF SWISS ASSOCIATION WITH THE SNAKE. CONSULTATIONS WOULD BE HELD WITH THE US ONCE OR TWICE A DAY BY THE EUROPEAN BANK HEADING UP THE CONSULTATIONS. (THIS LEADERSHIP POST IS, WE UNDERSTAND, ROTATED WEEKLY AMONG SNAKE PARTICIPATS.) THE U.S. IN TURN WOULD COORDINATE WITH JAPAN AND CANADA.

3. DIFFERENCE OVER FOREIGN MINISTRY PARTICIPATION: DANISH CENTRAL BANK GOVERNOR HOFFMEYER, WHO IS CURRENTLY CHAIRMAN OF THE EC CENTRAL BANK GOVERNORS COMMITTEE, SAID THE GOVERNORS HAD AGREED THAT IT WAS NOT NECESSARY TO HAVE CONSULTATIONS AMONG FINANCE MINISTRY OFFICIALS ON EXCHANGE MARKET INTERVENTIONS BECAUSE EXISTING CONSULTATIVE ARRANGEMENTS WERE WORKING WELL. APEL SAID THAT THIS WAS NOT JUST A TECHNICAL ISSUE TO BE LEFT ONLY TO CENTRAL BANKS, BECAUSE INTERVENTION POLICY HAD IMPLICATIONS FOR GENERAL ECONOMIC POLICY. THERE CONSEQUENTLY SHOULD ALSO BE CONSULTATIONS AT A POLITICAL LEVEL. APEL ADDED THAT THE EC WAS ENTERING CONFIDENTIAL

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INTO ANEW PERIOD OF JOINT COOPERATION IN THE STABILIZATION OF EXCHANGE MARKETS. FRENCH FINANCE MINISTER FOURCADE STRONGLY SUPPORTED APEL. HOFFMEYER THEN ADDED THAT AT LEAST IT WAS NOT NECESSARY TO ESTABLISH A NEW NETWORK OF TELEPHONIC CONSULTATIONS AMONG FINANCE MINISTRIES, AND THE EXISITING STRUCTURE OF INTERNATIONAL FINANCE MEETINGS SHOULD PROVIDE ADEQUATE OPPORTUNITIES FOR CONSULTATIONS AMONG FINANCE MINISTRIES. BELGIAN FINANCE MINISTER DE CLERCQ, THE CHAIRMAN,

CONCLUDED THAT THERE WAS NO DECISION ON THIS MATTER AND THE EC CENTRAL BANK GOVERNORS SHOULD STUDY THIS ISSUE FURTHER.

4. OUR SOURCES SAY THE DISCUSSION ENDED IN CONFUSION ON HOW THE EC SHOULD PROCEED REGARDING THE FRENCH-US PROPOSALS TO SET UP A THREE-TIER CONSULTATIVE STRUCTURE. APEL SUPPORTED WEEKLY CONSULTATIONS AMONG DEPUTY FINANCE MINISTERS AND PERIODIC CONSULTATION AMONG FINANCE MINISTERS, AS NEEDED. SEVERAL OFFICIALS HERE NOW EXPECT THE US AND FRANCE TO BEGIN CONSULTATIONS AMONG FINANCE MINISTRIES AND PERHAPS THE FRG WILL ALSO PARTICIPATE. OTHER EUROPEAN COUNTRIES COULD THEN JOIN IN IF THEY DESIRED TO DO SO. OUR SOURCES SAY THE CONSULTATION STRUCTURE WILL BE TAKEN UP AT THE G-10 MEETING ON DECEMBER 19.

5. USE OF EC CURRENCIES:
DUTCH FINANCE MINISTER DUISENBERG SAID THAT THE GROUP SHOULD CONSIDER CONSULTATION PROCEDURES IN CASES IN WHICH NON-EC AND NON-SNAKE COUNTRIES MIGHT WANT TO INTERVENE IN EC CURRENCIES. OUR SOURCES SAY IT WAS NOT CLEAR BUT THERE SEEMED TO BE A CONSENSUS THAT THE EC CENTRAL BANK COMMITTEE WOULD UNDERTAKE TO STUDY THIS MATTER.

6. MORE SNAKE MEETINGS:
APLE SAID THAT THE EC AND OTHER SNAKE PARTICIPANTS SHOULD CONSULT MORE REGULARLY AND SHOULD BROADEN THEIR DISCUSSION TO INCLUDE ECONOMIC POLICY ISSUES. HE ADDED EXCHANGE RATE STABILITY WAS A PRODUCT OF ECONOMIC STABILITY AMONG THE INDUSTRIALIZED COUNTRIES. APEL CONSEQUENTLY PROPOSED THAT NORWAY AND SWEDEN PARTICPATE MORE FREQUENTLY IN THE SNAKE MEETINGS. (COMMENT: THE LAST TIME THE NORDIC MINISTERS WERE INVITED TO SUCH A MEETING WAS 12 MONTHS AGO.) THERE WAS NO AGREEMENT ON THIS PROPOSAL BUT OUR SCANDANAVIAN SOURCES CONFIDENTIAL

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BELIEVE THEY WILL NOT BE ABLE TO ATTEND ABOUT HALF OF THE SNAKE MINISTERIAL MEETINGS. THEY ALSO HAVE THE IMPRESSION THAT THEY WILL BE ABLE TO REQUEST AN INVITATION TO ATTEND SHOULD THEY WANT TO ATTEND A PARTICULAR MEETING.

7. INTERMEDIATE SOLUTION FOR SWITZERLAND:
APEL SAID THAT HE WAS DISAPPOINTED OVER THE GROUP'S DECISION NOT TO INVITE THE SWISS TO BECOME ASSOCIATED WITH THE SNAKE. THE FRG, HOWEVER, WAS PAREPARED TO FACE THE POLITICAL REALITY THAT THE GROUP DID NOT FAVOR SWISS ASSOCIATION AT THIS TIME. HE PROPOSED INSTEAD THAT STUDY BE GIVEN TO AN INTERMEDIATE SOLUTION FOR SWITZERLAND; APEL DID NOT SPECIFY THE TYPE OF SOLUTION. (COMMENT: OUR SOURCES SPECULATE THAT APEL WAS REFERRING TO BILATERAL SWAP ARRANGMENTS WITH SWITZERLAND.) FOURCADE, HOWEVER, SEEMED TO REJECT THIS PROPOSAL. HE SAID

THAT SINCE THE ISSUE OF SWISS ASSOCIATION HAD COME UP THE SF HAD APPRECIATED OVER 5 PERCENT AGAINST SNAKE CURRENCIES AND THIS WOULD HAVE HAD AN ADVERSE IMPACT ON THE OTHER PARTICIPANTS. FOURCADE ADDED THAT THE SWISS HAD NOT ASKED FOR AN INTERMEDIATE ARRANGMENT AND IN FACT THEY HAD RECENTLY WITHDRAWN THEIR APPLICATION. APEL DISPUTED THIS BY SAYING THAT SINCE THE GOF HAD BLOCKED THEIR ASSOCIATION, THE SWISS HAD ASKED FOR SUSPENSION IN NEGOTIATIONS. NO DECISION WAS REACHED ON THE PROPOSAL TO STUDY A POSSIBLE INTERMEDIATE SOLUTION.

8. SNAKE OPERATIONS:

APEL AND FOURCADE THEN TURNED TO A DISCUSSION OF THE FUTURE OF THE SNAKE. THEY SAID THAT THE SNAKE WAS STRONG AND HEALTHY, AND REPRESENTED THE CORE OF EC MONETARY AND ECONOMIC INTEGRATION TO DATE. FOURCADE ADDED THAT THE PROPOSED CONSULTATION SYSTEM FOR COORDINATED INTERVENTIONS DEPENDED ON THE SNAKE. THE GROUP GENERALLY AGREED THAT SNAKE PARTICIPANTS SHOULD CONTINUE TO TAKE A PRAGMATIC APPROACH TOWARD INTERVENTION POLICIES. THERE WAS NO DISCUSSION ON WHETHER THEY SHOULD CONTINUE TO INTERVENE PRIMARILY IN DOLL

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